

REIS Glossary - October 13, 2006

General Terms

| Proposed Glossary Term | Definition |
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| ADC Arrangements | An ADC arrangement is an arrangement in which a bank (lender) provides financing for real estate acquisition, development, or construction purposes and has virtually the same risks and potential rewards as those of owners or joint venturers. There is often little risk in such arrangements to the borrower. The lender may advance all or substantially all the necessary funds to complete a project (including fees and interest), may have a share in the residual profits of the project (an equity "kicker"), and must look to the eventual sale or refinancing of the property for repayment of the advances. Such transactions are often structured in a manner that makes default unlikely because there is no requirement for the borrower to make payments while the project is in progress. ADC arrangements should be reported as loans, real estate ventures, or direct investments in real estate in accordance with guidance presented by the AICPA in a Notice to Practitioners issued in February 1986. |
| Additional Contingent Interest | Lender participation in the appreciation in value of the underlying property in a participating loan (REIS) |
| Appreciation | An increase or decrease in value of an asset. Appreciation may be attributable to improvement or deterioration in the financial performance of the asset or changes in the market value for the asset. |
| asset weighted | An averaging technique whereby numerical characteristics (such as interest rates or rents) of a group of assets are averaged in proportion to each asset's common characteristic (such as asset value or square feet). |
| Asset weighting methodology | Asset weighting of the portfolio returns within a composite using beginning-of-period weightings, beginning of period market values plus weighted cash flows, or by aggregating portfolio assets and cash flows to calculate performance as a single master portfolio. |
| Asset-weighted composites | An aggregation of individual portfolios representing a similar investment objective or strategy, weighted by the beginning-of-period market values of the constituent portfolios. |
| Association for Investment Managers (AIMR) | The former name of the CFA Institute. Members of AIMR approved the name change in May, 2004. |
| Base Interest | Contractually stated fixed or floating rates in a participating loan (REIS) |
| Capital Expenditures | Investment of cash or the creation of a liability to acquire an asset or an improvement to an asset that will have a life of more than one year, e.g., land, buildings, building additions, site improvements, machinery, equipment; as distinguished from cash outflows for repairs, which merely maintain assets in an efficient operating condition and are considered part of the current period's operations. |
| CFA Institute | A global membership organization that awards the CFA (Chartered Financial Analyst) designation. The Institute established and interprets the Global Investment Performance Standards (GIPS) and the AIMR Performance Presentation Standards (AIMR-PPS). [www.cfainstitute.org] |
| Closed-end commingled fund | A commingled fund with a stated maturity (termination) date, with few or no additional investors after the initial closing of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not reinvest the sales proceeds. |
| Commingled funds | A term applied to all open-end and closed-end pooled investment vehicles. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account, or other multiple ownership entity. |
| Composite | A composite is an aggregation of one or more portfolios into a single group that represents a particular investment objective or strategy. |
| Contingent Interest | A percentage of property net income or cash flow after debt service in a participating loan.(REIS) |
| Contractual Interest | The base or minimum interest rate paid exclusive of amounts payable as a result of the participation feature. |
| Contractual Principal | The nominal principal of a loan exclusive of amounts payable as a result of any participation feature. |
| Controlling Equity Interest | An ownership position that meets the requirements of control according to the governing accounting literature. |
| Costs of Sale | An estimate of the incremental direct costs to transact the sale of the property. These costs generally include brokerage commissions, closing costs and fees, and other necessary disposition expenses. |
| Debt Interest | The ownership of a mortgage note or other note receivable secured by real estate assets owned by another party (REIS p. 26). |
| Definitive Decision to Sell | The point in time when all of the criteria are met for an asset to be considered held for sale under SFAS 144. The criteria are as follows: a) Management, having the authority to approve the action, commits to a plan to sell the asset, b) The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, c) An active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated, d) The sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year, e) The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and f) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. |
| Emerging Issues Task Force (EITF) | The Emerging Issues Task Force (EITF) was formed in 1984 in response to the recommendations of the FASB's task force on timely financial reporting guidance and a FASB Invitation to Comment on those recommendations. The mission of the EITF is to assist the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues within the framework of existing authoritative literature. |

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| Fair Value (FASB, GIPS, Appraisal Institute) | <p>The FASB has defined Fair Value as the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The appraisal profession further expands this definition as follows: The most probable price which a specified interest in real property is likely to bring under all of the following conditions:</p> <ul style="list-style-type: none"> ▪ Consummation of a sale occurs as of a specified date. ▪ An open and competitive market exists for the property interest appraised. ▪ The buyer and seller are each acting prudently and knowledgeably. ▪ The price is not affected by undue stimulus. ▪ The buyer and seller are typically motivated. ▪ Both parties are acting in what they consider their best interest. ▪ Marketing efforts were adequate and a reasonable time was allowed for exposure in the open market. ▪ Payment was made in cash in U.S. dollars or in terms of financial arrangements comparable thereto. ▪ The price represents the normal consideration for the property sold, unaffected by special or creative financing. |
| Financial Accounting Standards Board (FASB) | The Financial Accounting Standards Board (FASB) is the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports. They are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. [www.fasb.org] |
| Free Rent | A period of time during the lease term when the tenant is excused from paying rent. |
| Geometrically linked | <p>A process by which sub-period returns are averaged to arrive at a period's rate of return. The linking formula is:</p> $(1 + S1) \times (1 + S2) \times \dots (1 + Sn) - 1,$ <p style="text-align: right;">S1 - is the first sub-period return ,</p> <p>S2 - is the second sub-period return , and</p> <p>Sn - is the last sub-period return.</p> |
| Global Investment Performance Standards (GIPS) | The GIPS standards, promulgated by the CFA institute, are ethical standards to be used by investment managers for creating performance presentations that ensure fair representation and full disclosure. |
| Governmental Accounting Standards Board (GASB) | The designated organization to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports. [www.gasb.org] |
| Impairment Accounting | A requirement of historical cost accounting principles whereby a loss is recognized if the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows and exceeds its fair value. An impairment loss is calculated as the amount by which the carrying value exceeds its fair value. Financial Accounting Standards Board Statement No. 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i> , provides guidance on impairment accounting. |
| Incentive management fees | Generally, fees paid after a predetermined investment performance has been attained. For example, fees payable upon actual or constructive sale of a real estate investment or portfolio, or payable when cash flows from operating or cash distributions exceed some threshold. |
| Investee | A corporation, partnership, or other legal entity that issued voting stock, partnership interests, or similar interests held by an investor. |
| Investment | A discrete asset or group of assets held for income, appreciation or stability and tracked separately. |
| Investment Discretion | Level of Authority for investment decision making by the investment manager. Full Discretion – No external approvals required for any investment decisions. Modified Discretion – No external approvals in any investment decisions that are consistent with investment guidelines, external approval required to go “outside the box”. Asset Management Discretion – External approval required for transactional activity (generally acquisition, disposition and/or financing), but no external approval for asset management decisions. No Discretion – External approvals required for transactional activity as well as significant issues, such as annual plans, budgets, leasing decisions, and service contracts. |
| Investment level | Evident or applied only to the entire investment i. e., "Investment-level debt" and "investment-level leverage". By contrast, "property-level" applies to characteristics of individual properties within an investment. |
| Investment Strategy | The method used to select which investments to include in a portfolio and to decide when to buy and when to sell those assets. |
| Investment Vehicles | A selected means of making an investment such as pooled funds, separate accounts, etc. |
| IRR (Internal Rate of Return) | The rate of return on an investment with irregular cash flows. <i>In algebraic terms</i> , the rate (IRR) that solves the following equation: $[F1/(1+IRR)] + [F2/(1+IRR)^2] \dots + [Fx/(1+IRR)^x] + Fo = 0$ where: Fo is the original investment; and F1 through Fx-1 are the net Cash Distributions less Cash Contributions for each regular successive year up to the last year; and Fx is the Ending Net Asset Value less the Estimate of Current Cost to Sell Investments, plus Cash Distributions less Cash Contributions for the final year. |
| Market Value | Fair Value (see) |
| Maturity Date | The date when the Total Principal Balance comes due. |
| Modified-Dietz | The Modified Dietz formula is the standard for calculating time-weighted rates of return. The return or numerator is divided by the weighted average investment or denominator for the period. The denominator is the market value of the investment as of the beginning of the period, adjusted for actual day weighting of cash flows (increased by contributions and decreased by distributions) incurred during the period. By using a weighted average investment, there is no need to re-value the investment at every cash flow, therefore, the formula provides an approximation of an IRR for that period. The formula for estimating the time-weighted rate of return is: |

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| | Modified Dietz = $\frac{EMV - BMV - CF}{BMV + \sum_{i=1} (CF_i \times W_i)}$ |
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| | $W_i = \frac{CD - D_i}{CD}$ |
| | CD |
| | Where: |
| | EMV = Ending Market Value |
| | BMV = Beginning Market Value |
| | CF = Net Cash Flows |
| | W = Weighted |
| | CD = Total number of calendar days in the period |
| | D _i = Number of calendar days since the beginning of the period in which cash flow CF occurred |
| | If a cash flow occurs which is more than 10% of the investment value, the period should be subdivided and interim returns should be calculated for each sub-period and linked together to derive the full period's return. |
| National Association of Real Estate Investment Managers (NAREIM) | A professional organization committed to providing knowledge and insight into the real estate industry. Educational programs are designed for the needs of senior level managers responsible for real estate investment portfolios. [www.nareim.org] |
| National Council of Real Estate Investment Fiduciaries (NCREIF) | An association of institutional real estate professionals which include investment managers, plan sponsors, academicians, consultants and other service providers who share a common interest in the industry of pension fund real estate investment. NCREIF serves the institutional real estate community as an unbiased collector and disseminator of real estate performance information, most notably the NCREIF Property Index (NPI). [www.ncreif.org] |
| NCREIF Property Index (NPI) | A quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. |
| Net Asset Value | The fair value of real estate and all other assets less total liabilities |
| Net Investment Income | The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments. Net investment income is the measure of operating results from a property or portfolio after all expenses have been deducted from all rental and other income. Capitalized expenditures such as leasing commissions, tenant improvement costs and other replacement costs are excluded. Rental revenue is recognized when it is contractually billable to tenants. Expenses are generally recognized when the obligation is incurred under the requirements of Financial Accounting Standard No. 5. Certain expenses which may be based on the investment vehicle's unrealized change in net asset value, such as incentive management fees, are excluded from net investment income and recognized as a component of the unrealized gain or loss, even if the future payment of the fees is contingent. |
| Non-Controlling Equity Interests (Minority Interest) | An ownership position that does not meet the requirements of control according to the governing accounting literature. |
| Open-end commingled fund | A commingled fund with no finite life, that allows periodic entry and exit of investors, and typically engages in ongoing investment purchase and sale activities. |
| Participating Mortgage loans | A loan secured by real property, with a stated base or minimum interest rate that also provides for the participation by the lender in annual net cash flow, gain on sale, or proceeds from refinancing the property |
| Pension Real Estate Association (PREA) | A nonprofit organization whose members are engaged in the investment of tax-exempt pension and endowment funds into real estate assets. PREA's mission is to serve its members engaged in institutional real estate investments through the sponsorship of objective forums for education, research initiatives, membership interaction and the exchange of information. [www.prea.org] |
| Percentage Rent | A percentage of the tenant's total annual sales paid as rent. Percentage rent is normally paid after a predetermined sales level has been achieved. The percentage factor is then applied to all sales over the preset level (breakpoint). |
| Pooled trusts | A multi-investor investment vehicle which is legally structured as a trust. |
| Prepayment Penalty | Fees paid by borrowers for the privilege of retiring a loan early. Such charge is provided for in the debt instrument and normally is expressed as a percentage of the loan, an additional interest charge, or a flat fee. |
| Rent normalization (FASTB 85-3) | Rental income of operating leases with schedule rent increases is recognized on a straight-line basis over the lease term (lease term start date is defined as the date the tenant has access to the space). |
| Replacement Costs | Expenditures that provides for the periodic restoration of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life. |
| ROI (Return on Investment) | Financial benefits flowing from an investment, typically expressed as an annual percentage of the amount invested. |
| Separate Accounts | 1. Any investment account managed for the benefit of one investor. 2. A segregated investment account set up by a life insurance company which, through subaccounts, invests in the underlying mutual funds offered through a variable annuity or variable life insurance contract. The Separate Account assets are maintained separately from the insurance company's general account so they cannot be used to pay claims associated with any other business of the insurance company. Separate Accounts are regulated by state insurance departments and may or may not be registered with the Securities and Exchange Commission. |
| SFAS | A FASB Statement of Financial Accounting Standard. See separate accounting section for specific SFAS's. |

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| SOP | An AICPA Statement of Position. See separate accounting section for specific SOP's. |
| Stabilized Expenses | A projected expense that is subject to change, but has been adjusted to reflect an equivalent, stable annual expense. [Appraisal Institute] |
| Stabilized Income | Income at that point and time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; projected income that is subject to change, but has been adjusted to reflect an equivalent, stable annual income [Appraisal Institute] |
| Stabilized Net Income | The amount resulting from subtracting stabilized expenses from stabilized income. The definition also incorporates the concept of stabilized occupancy within this definition. |
| Stabilized Occupancy | Occupancy at that point and time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; the optimum range of long-term occupancy that an income-producing real estate project is expected to achieve under competent management after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings. [Appraisal Institute] |
| Stepped Rent | Rents that are structured so they increase or decrease by agreed upon amounts at specific times during the life of the lease. |
| Time weighted returns (TWR) | A calculation that computes period-by-period returns on an investment and removes the effects of EXTERNAL CASH FLOWS, which are generally client-driven, and best reflects the FIRM's ability to manage assets according to a specified strategy or objective. ¹ A return calculated for each equal length period, usually on a quarterly basis for real estate. Returns are then linked to calculate a multi-period return. Each return, over the period, has an equal weighting, therefore, the timing of the return or the amount invested for a period, has no impact on the multi-period return. |
| Total Return | For a single period, the sum of the quarterly net income (loss) return and the realized or unrealized valuation adjustment (appreciation or depreciation) return. For longer periods, the geometrically-linked total returns for the individual periods within the longer period. |
| Valuation | 1. The process of determining the worth of an asset or a fund. 2. The result of that process: the estimated worth or sales price of an asset or fund. |

| REIS Glossary | |
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| Accounting Pronouncements | |
| Proposed Glossary Term | Definition |
| Accounting Literature Glossary Note: | All definitions below are excerpts from each respective Statement's "Summary" section. Please see the full body of each Statement at www.fasb.org for FASB related statements or www.aicpa.org for Statements of Position. |
| FASB Interpretation No. 46 (revised) | This interpretation, which replaces <i>FASB Interpretation No. 46, Consolidation of Variable Interest Entities</i> , clarifies the application of Accounting Research Bulletin No. 51, <i>Consolidated Financial Statements</i> , to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. |
| SFAS No. 140 | Financial Accounting Standards Board Statement No. 140, <i>Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities</i> , provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. |
| SFAS No. 144 | Financial Accounting Standards Board Statement No. 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i> , addresses financial accounting and reporting for the impairment or disposal of long-lived assets. |
| SFAS No. 66 | Financial Accounting Standards Board Statement No. 66, <i>Accounting for Sales of Real Estate</i> , establishes accounting standards for recognizing profit or loss on sales of real estate. |
| SOP 78-9 | <i>Statement of Position 78-9 Accounting for Investments in Real Estate Ventures</i> presents the Accounting Standards Division of the AICPA's recommendations on accounting for investments in real estate ventures (corporate joint ventures, general and limited partnerships, and undivided interests). The recommendations are primarily an application of the existing authoritative accounting literature to the specialized accounting problems related to such investments and are intended to narrow the range of alternative practices. SOP 78-9 is amended by FASB Staff Position SOP 78-9-1, Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5. |
| SOP 94-6 | The disclosure requirements of <i>Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties</i> focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term |